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Indonesia

Grain and Feed

Rice Update

2003

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Report Highlights:

With a reduction in the pace of imports in the third quarter, the import forecast for 2003 has been reduced to 3 million tons. The pace of imports fell due to less attractive margins for private imports, and a reduction in Bulog's import program. Bulog currently holds ample stocks, and their import program is essentially complete for the year. The dry season continues in some parts of the country, but badly needed precipitation has fallen in other key rice growing areas, specifically Sumatra and West Java. In the meantime, pressure continues to mount for some sort of protectionist action to be taken to limit rice imports.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Jakarta [ID1]
[ID]

Weather and Irrigation Facility

In October 2003, rains continued in Sumatra and West Java, which make up slightly over 41 percent of Indonesia's total rice production area. However, many other key producing regions remain dry, with the rainy season yet to begin. Conditions in Central and East Java, comprising nearly 33 percent of Indonesia's rice production, continue to be dry. Nonetheless, meteorological officials expect that the wet season in those areas will begin this month, allowing for beginning of rice seeding. The Government of Indonesia (GOI) is reportedly considering cloud seeding to bring precipitation in some of the targeted areas, but this project has yet to begin. Efforts to initiate precipitation in this manner will focus on areas with large reservoirs, such as Jatiluhur in West Java. In areas where precipitation has been sufficient, the GOI has been encouraging farmers to start planting rice.

Out of the total rice area planted, irrigated rice planting area accounts for an estimated 10.4 million Ha, of which approximately 50 percent is in Java and 25 percent is in Sumatra. Productivity from these irrigated areas is 47.3 Quintal/HA while non-irrigated planting areas produced 24.8 Quintal/HA.

PS&D Table

PSD Table

Country Commodity	Indonesia Rice, Milled					
	(1000 HA)		(1000 MT)			
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official	Estimate [1]	USDA Official	Estimate [1]	USDA Official	Estimate [1]
Market Year Begin	01/2002			01/2003		01/2004
Area Harvested	11500	11600	11500	11500	11500	11600
Beginning Stocks	4605	4886	4836	4683	4496	4272
Milled Production	33089	32960	33200	33089	33300	33218
Rough Production	51301	51500	51473	51301	51628	51501
MILLING RATE (.9999)	6450	6400	6450	6450	6450	6450
TOTAL Imports	3500	3200	3250	3000	3500	3000
Jan-Dec Imports	3500	3200	3250	3000	3500	3000
Jan-Dec Import U.S.	83	178	0	100	0	100
TOTAL SUPPLY	41194	41046	41286	40772	41296	40490
TOTAL Exports	0	3	0	0	0	0
Jan-Dec Exports	0	3	0	0	0	0
TOTAL Dom. Consumptic	36358	36360	36790	36500	36950	36650
Ending Stocks	4836	4683	4496	4272	4346	3840
TOTAL DISTRIBUTION	41194	41046	41286	40772	41296	40490

Production and Area

In 2004, GOI has established a production target of 53.5 million tons and hopes to achieve this through expanding area to 11.8 million HA. The Islands of Sumatra and Kalimantan have been cited as potential locations for the additional rice planting, but industry observers question whether there is sufficient productive land in those areas to meet these goals. The first-season 2004 crop is currently being planted in irrigated areas, with the peak-planting season expected in late October. Additional rains in certain areas is still critical for planting of this crop.

For 2003, information from key producing regions continues to indicate that drought losses have not been particularly significant in terms of total production. Below is information relating to production losses on the Island of Java, where some reports indicated the impact of the dry weather was the most severe. The real impact of the less than average precipitation this year, which is the second year in a row, may not be felt until next year, when the cumulative impact of two consecutive years of less-than-average precipitation may have an acute impact on needed water reserves.

West Java

Due to dry conditions, a 65,000 HA loss in the rice area, or approximately 800,000 tons of production, has been reported. However, it is expected that this loss will be offset by better productivity in other areas.

Central Java

Only about 20,230 HA, or 1 percent of total area is reported to have been lost. At the end of the second rice harvest, production had reached about 6.4 million tons or about 75 percent of output for the area for the year.

East Java

The estimated total losses in East Java are around 20,340 tons. Following the end of the second rice crop, production had reached about 78 percent of the 2003 production forecast for the region.

Agricultural Inputs

The GOI continues to try to increase productivity by offering a package of programs, including: subsidizing fertilizer, promoting more efficient higher use of fertilizers, offering credit programs, and improving irrigation capacity. GOI is also coordinating with seed providers in an attempt to improve production and distribution of registered seed.

Trade

Rice imports from January-June, 2003, reached an estimated 1.6 million tons. The pace of imports in the third quarter was less than expected, and less than the first two quarters. As a result, the 2003 import estimate has been reduced to 3 million tons.

To date, Vietnam has accounted for about 35 percent of the imports, followed by Thailand (23 percent) and India (13) percent. Both private sector and Bulog's imports have slowed. With only about 60,000 tons remaining to arrive, Bulog's import program is essentially complete for the year. Bulog will import about 580,000 tons in 2003, just over half the quantity imported in 2002. Reportedly, the incentive for private sector imports has declined, both through official channels and parallel imports. Growing competition among importers has reduced margins, as well as their willingness to risk importing without reporting or paying full duty. While it is difficult to quantify, up to 35 percent of the total rice imports have not been reported and/or have not paid full duty. The pace of imports should accelerate in the fourth quarter with the upcoming Moslem holiday season, end of year festivities, and Indonesian elections in April 2004. As is traditionally the case, demand for low priced rice will increase over the next few months.

Policy

Momentum is growing to curb or otherwise limit rice imports. GOI is engaging in a significant internal debate and several alternatives are being proposed: (1) an outright ban on imports during the key harvest period (Feb-April); (2) increasing import tariffs (from current level Rp. 430/kg to Rp. 550/kg); (3) establishing import quotas; (4) imposing a tariff rate quota; and/or (5) designating that only certain ports of entry can import rice (outside of major rice producing areas). Many of these ideas have been debated for quite some time, and it is difficult to gauge what the outcome of the GOI's internal policy debate may be. However, recent public comments by senior GOI officials suggest that political pressure is mounting for some action to be taken, and certain key players strongly favor imposing new/higher import barriers to rice. The most likely scenario is that some sort of administrative/quantitative limitation will be imposed, as certain elements in the decision-making apparatus are adamantly opposed to attempting to impose a higher duty.

Regarding import procedures, upon arrival, imported rice is not currently subject to physical inspections unless there is strong evidence that it is required. Both private and Bulog are also subject to pay the existing import duty. However, as indicated above, a very high percentage of the imported rice either pays something less than full duty.

Although Bulog's status is now a state trading company, the institution continues to hold responsibility for transporting rice to distribution centers, where it is then distributed by local governments to low-income families. Under this program, Bulog sells the rice for Rp. 1000/kg, which implies a subsidy of about Rp. 2,343/kg based on Bulog's buying price. Poor families can purchase up to 20 kg per month. Bulog's total annual rice distribution is about 2.5 million tons, including about 1.8 million tons for the low-income program, 210,000 tons for the military, 420,000 tons for civil servants in remote areas, and 75,500 tons for emergency requirements.

Stocks

As of the first week of October 2003, Bulog stocks totaled approximately 2.3 million tons milled rice, comprised of 1.9 million tons rough rice (equal to 1.2 MMT of milled rice) and 1.1 MMT of milled rice.

Prices

The current floor price of rice is Rp. 2,430/kg. Local medium rice quality (IR-64) is currently sold at Rp. 2,400 to Rp. 2,500/kg. Imported rice is sold at Rp. 1,900/kg (low quality) up to Rp. 2,300/kg for medium quality. As the margins for imported versus domestic rice grow tighter, Indonesian consumers prefer to buy domestic rice that comes from the most recent harvest season.

Exchange Rates

Exchange rates during the last 5 months have been fairly stable ranging at Rp. 8279 to Rp. 8535 per US\$1. The most current exchange rate quoted for October 7 is Rp. 8,388/US\$1.

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